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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Two thirds of private equity investors cite overvaluation of firms as main concern

A survey of institutional investors in alternative assets conducted by research provider Preqin indicated that 89% of surveyed investors said that their private equity (PE) investments have met or exceeded their expectations in the 12 months ending June 2016, compared to 87% of respondents a year earlier. It added that 44% of surveyed investors plan on investing the same amount of capital in PE funds in the coming year as they did in the past 12 months, 43% of respondents intend to invest more in such funds and 14% plan to allocate less capital to PE investments. Further, it said that 60% of surveyed investors believe that North America has the best PE investment opportunities in the current financial climate, 35% of investors cited Europe and 26% of participants consider Asia as the region with the most PE investment opportunities. In parallel, the survey pointed out that 67% of respondents considered their current biggest concern to be the high pricing and valuations of privately held companies, 56% of investors said that exiting their investment in the prevailing environment is their biggest challenge, 44% of participants cited the volatility and uncertainty of global markets, and 42% of respondents believed that the performance of their investment poses the biggest concern for them. In addition, 47% of investors believe that it has become more difficult to identify attractive investment opportunities in the current market conditions compared to 12 months ago.

Source: Preqin

Negative-yielding sovereign debt at $10.9 trillion

Fitch Ratings indicated that 14 out of the 34 largest Fitch-rated investment grade sovereign issuers had outstanding debt trading at yields below zero. It estimated the global stock of negative-yielding sovereign debt at $10.9 trillion as of September 12, 2016, down from about $12 trillion on June 27, 2016. It indicated that Japan has $6.9 trillion in negative-yielding sovereign debt, or about 63% of the global stock, the highest share worldwide. France followed with $1.1 trillion (10%), then Germany with $1 trillion (9%) and Italy with $0.5 trillion (4.5%). The agency noted that Switzerland has 95% of its sovereign debt trading with negative yields, the highest share globally. Further, Fitch indicated that the 34 largest investment grade sovereign issuers had outstanding debt of $38 trillion as of September 12, 2016. It said that the current yields on the debt stock are about $319bn, but it noted that the amount would rise to $806bn when applying the yields that prevailed in July 2011. As such, it pointed out that investors are foregoing about $500bn in annual income as a result of the collapse in sovereign yields. It added that Spain and Italy posted declines of 432 basis points and 415 basis points, respectively, in weighted-average sovereign yields, constituting the two largest declines among the top issuers over the past five years.

Source: Fitch Ratings

EMERGING MARKETS

Fixed income trading up 12% to $1,356bn in second quarter of 2016

Trading in emerging markets (EM) debt instruments reached $1,356bn in the second quarter of 2016, up by 5% from $1,299bn in the preceding quarter and by 12% from $1,211bn in the second quarter of 2015. Improving market fundamentals, strong capital inflows, increasing issuance of bonds and strong year-to-date returns drove trading in EM debt instruments in the covered quarter. Turnover in local-currency instruments reached $848bn in the second quarter of 2016, up by 4% from $819bn in the preceding quarter and by 18% from $721bn in the second quarter of 2015. In parallel, trading in Eurobonds, mainly sovereign and corporate bonds, stood at $497bn in the second quarter of 2016 and rose by 6% from $471bn in the first quarter of 2016, while it increased by 2% from $487bn in the second quarter of 2015. The volume of traded sovereign Eurobonds reached $257bn and accounted for 52% of total Eurobonds traded in the covered quarter, while the volume of traded corporate Eurobonds reached $227bn, or 47% of the total. Overall, the most frequently traded instruments in the second quarter of 2016 were Mexican fixed income assets with a turnover of $216bn, or 16% of the total, followed by instruments from India with $188bn (14%), securities from Brazil with $155bn (11%), assets from South Africa with $110bn (8%) and securities from China with $98bn (7%).

Source: EMTA

Speculative-grade ratings at 53% of total corporate ratings at end-June 2016

S&P Global Ratings indicated that it rated 1,541 corporate entities from emerging markets (EMs) as at the end of June 2016, which account for 22.4% of rated corporates worldwide. It said that 820 EM entities have speculative-grade ratings, and 721 entities have investment-grade ratings. It added that speculative-grade ratings accounted for 53.2% of total EM ratings at end-June 2016 compared to a share of 49.1% worldwide. The ratings distribution of EM issuers shows that 30.2% of rated firms are in the 'BBB' range, 29.7% belong to the 'BB' category, 21.2% are in the 'B' range, 13.4% are in the 'A' category, 2.7% in the 'AA' range and 0.5% in the 'AAA' range, while 2.3% of EM firms are rated 'CCC' or lower. Also, the EM median rating is 'BB+' relative to the global median of 'BBB-'. Further, S&P indicated that non-financial entities represented 55.4% of EM issuers and 59.5% of EM speculative-grade issuers, while financial institutions accounted for 49.2% of investment-grade entities in the region. It said that corporate issuers from Brazil represented 11% of rated EM issuers as of end-June 2016, followed by those from Mexico (10%), China and Russia (8% each), Israel and Taiwan (7% each), Hong Kong (6%) and South Korea (3%). In parallel, S&P noted that it downgraded 3.9% of EM corporate entities and upgraded 1.7% during the second quarter of 2016, while it withdrew the ratings on 2.5% of EM corporates. It said that the EM corporates' downgrade-to-upgrade ratio stood at 2.31% at the end of June 2016 compared to the global ratio of 1.47%.

Source: S&P Global Ratings

OUTLOOK

EMERGING MARKETS

Banking sectors face various risk levels

S&P Global Ratings expected banks in the six members of the Gulf Cooperation Council (GCC) countries, as well as in Nigeria, Russia, South Africa and Turkey to remain under pressure in the fourth quarter of 2016 and in 2017. It noted that sources of risks for banks in 2017 include a sustained low commodity price environment that would affect nine of the 10 covered economies, a potential escalation of political and geopolitical risks that is relevant for Turkey and to a lesser extent GCC countries, and the dependence on foreign capital inflows that remain significant for Turkey and to a lesser extent for Russia and Nigeria. It considered that Nigerian and small Russian banks are the most vulnerable to risks of default.

S&P anticipated the average lending growth at GCC banks to decelerate from about 10% in 2015 to 6% in 2016 and to 5% in 2017. In addition, it expected the banks' asset quality to deteriorate and for their profitability to decline. However, it noted that GCC banks have the capacity to absorb such pressure due to their sound asset quality, good profitability and strong capitalization. It expected the pressure on the banks' liquidity to ease due to the slowdown in lending growth and to the governments' reduced reliance on the banking sector for their financing needs.

In parallel, the agency expected the asset quality of Nigerian banks to continue to deteriorate due to the slowdown in economic activity, high credit concentrations and shortages of foreign currency. It said that the significant depreciation of the Nigerian naira weakened the creditworthiness of some major borrowers, and has inflated the banks' assets and reduced their capitalization. It anticipated foreign currency shortages in Nigeria to create solvency risks for some banks, with small and mid-tier banks being the most vulnerable. In parallel, S&P considered that external funding and asset quality are the main risks for Turkish banks in 2016 and 2017. It estimated that Turkish banks' gross external debt reached about $180bn in June 2016, of which 45% have short-term maturities. Further, it expected the banks' asset quality metrics to deteriorate, mainly due to their SME and foreign currency loan portfolios.

Source: S&P Global Ratings

AFRICA

Industrial output at $930bn, business expenditures to reach $3.5 trillion by 2025

The McKinsey Global Institute considered that Africa's long-term growth outlook is favorable, supported by a young population, a growing labor force, a fast urbanization rate, accelerating technological change and an abundance of natural resources. It anticipated these factors to help drive rapid growth in consumer markets and in business supply chains, and to provide opportunities to build large and profitable industrial and services companies across Africa.

McKinsey expected aggregate household spending in African economies to grow from $1.4 trillion in 2015 to $2.1 trillion by 2025. Also, it projected business spending to increase from $2.6 trillion last year to $3.5 trillion by 2025, with about 50% of the total spent on materials, 16% on capital goods and the remaining 34% spent on a wide range of services including business and financial services, transportation and telecommunications. Further, it estimated that Africa could nearly double its manufacturing output from $500bn in 2015 to $930bn by 2025, provided that African economies take decisive actions to improve the climate for manufacturers. It considered that most of the growth in output would come from meeting intra-African demand and from substituting imports of manufactured goods, as well as from increasing exports. It added that an expanded and more productive manufacturing sector could lead to the creation of about six to 14 million stable jobs over the next 10 years.

In parallel, McKinsey indicated that African governments are facing many challenges, including pressure on their public finances, a slowdown in foreign direct investment and the need to provide housing, infrastructure and services for their fast-growing cities. As such, it noted that authorities need to develop a supportive environment for the private sector and to accelerate investment and productivity, such as through economic diversification and infrastructure development.

Source: McKinsey Global Institute

JORDAN

Growth to pickup in 2017, public finance imbalances to narrow

The Institute of International Finance projected Jordan's real GDP growth to accelerate from 2.2% in 2015 to 2.8% in 2016 and 4% in 2017, driven by investment and solid private consumption. It expected export growth to be weak this year due to the disruption of trade routes and the loss of the country's competitiveness, and to recover in 2017 in case the conflicts in Syria and Iraq de-escalate. Still, it said that economic growth continues to be below Jordan's 4.5% potential growth rate and less than the 5% growth rate required to absorb new entrants to the labor force. It pointed out that downside risks to the outlook consist mainly of increased security and geopolitical risks. Further, it projected the inflation rate to average -0.6% in 2016 due to lower commodity prices and the currency peg to the US dollar, and to average 2.7% in 2017.

The IIF projected the fiscal deficit, excluding grants, at 6.7% of GDP in 2016 and 5.5% of GDP in 2017 compared to a deficit of 6.8% of GDP in 2015, due to an anticipated rise in government revenues; while it forecast the fiscal deficit, including grants, at 3.8% of GDP in 2016 and 2.7% of GDP in 2017. It said that the government would meet its financing needs this year through domestic issuance and external borrowing. It forecast the public debt level at 92.8% of GDP in 2016, nearly unchanged year-on-year and to decline gradually afterwards. It considered that Jordan's favorable credit profile mitigates its elevated debt level.

Further, the IIF indicated that lower global oil prices have reduced imports and eased the pressure on Jordan's external position. It forecast the current account deficit to narrow from 9.2% of GDP in 2015 to 8.2% of GDP in 2016 and 7.3% of GDP in 2017. It projected foreign currency reserves to rise from $15.2bn, equivalent to 7.6 months of imports in 2015, to $15.5bn in 2016 and $16.2bn in 2017, or eight months of imports in both years.

Source: Institute of International Finance

ECONOMY & TRADE

IRAQ

Ratings affirmed at 'B-', outlook 'negative'

Fitch Ratings affirmed at 'B-' Iraq's long-term foreign currency Issuer Default Rating, with a 'negative' outlook. It said that the ratings reflect political instability and insecurity in the country, which are among the highest faced by any Fitch-rated sovereign, as well as corruption, government ineffectiveness and weak institutions. It also noted that the ratings take into account the significant deterioration in Iraq's public finances and external sector as a result of the drop in global oil prices, as well as the country's weak banking sector. It forecast Iraq's oil production to stabilize at about 4.6 million b/d in 2017 and for oil exports to average 3.3 million b/d due to flat investments in the oil sector in 2017. Further, the agency indicated that Iraq's financial position has deteriorated due to the decline in global oil prices, given the country's dependence on oil export receipts, which is the highest among Fitch-rated sovereigns. It said that, under the IMF program, authorities are targeting a fiscal deficit of $22bn in 2016, of which $17bn would be financed through debt issuance and $4bn would be financed by drawing down the government's deposits at banks, while the rest of the deficit would be covered by multilateral and bilateral loans. It noted that the Central Bank of Iraq would refinance about 63% of the new domestic issuance. As such, it forecast the public debt level to average 73% of GDP in the 2015-17 period. Further, it projected the current account deficit to average about 9% of GDP annually in the 2016-17 period, and expected foreign currency reserves to decline from $54bn at the end of 2015 to $45bn at end-2016 and $41bn, or eight months of current account payments, at end-2017.

Source: Fitch Ratings

SAUDI ARABIA

Fiscal consolidation at current oil prices insufficient to significantly narrow imbalances

Merrill Lynch considered that Saudi Arabia's National Transformation plan (NTP) includes several ambitious targets that will be difficult to achieve, and that the plan remains vague on a number of aspects related to fiscal and growth-supporting measures. It said part of the revenues generated from fiscal reforms will be directed toward funding the NTP initiative, which means that fiscal consolidation without a recovery in oil prices could fail to significantly narrow fiscal imbalances. It projected the fiscal deficit to narrow from 15% of GDP in 2015 to 13.7% of GDP in 2016 and 10.4% of GDP in 2017. Also, it forecast the government debt level to rise from 5.9% of GDP in 2015 to 20.4% of GDP in 2017. It estimated that oil prices need to average at least $50 p/b annually during the 2016-20 period, along with no growth in public spending, excluding the fiscal cost of NTP initiatives, in order for authorities not to exceed the debt targets. In parallel, Merrill Lynch projected real GDP growth to decelerate from 3.5% in 2015 to 1.7% in 2016 and 1.8% in 2017. It forecast the current account deficit to widen from 8.3% of GDP in 2015 to 12.2% of GDP in 2016 and to narrow to 8.6% of GDP in 2017. Also, it expected foreign currency reserves to decline from $616bn in 2015 to $520bn in 2016 and $482bn in 2017. It said that a prolonged period of low oil prices, fiscal reform slippage and geopolitical risks are the main challenges facing Saudi Arabia.

Source: Merrill Lynch

NIGERIA

Sovereign ratings downgraded on weak growth dynamics, outlook 'stable'

S&P Global Ratings downgraded Nigeria's long-term foreign and local currency sovereign credit ratings from 'B+' to 'B', with a 'stable' outlook. It attributed the downgrades to Nigeria's weaker-than-previously anticipated growth dynamics. It noted that oil production contracted significantly due to the attacks on oil infrastructure in the Niger delta. It added that the Central Bank of Nigeria's (CBN) restrictive foreign currency regime, the authorities' delays to ratify the expansionary 2016 budget, as well as lower electricity production and elevated inflation rates are weighing on the non-oil economy. As such, it projected real GDP to contract by 1% in 2016, and to grow by 2% in 2017 and by 4% in 2018, in case the adjustment to the exchange rate system, fiscal reforms and higher oil prices support economic activity. In parallel, the agency expected Nigeria's fiscal deficit to widen from 3.7% of GDP in 2015 to 4% of GDP in 2016 due to lower public revenues, but to gradually narrow to 2.3% of GDP in 2018 as revenues increase and spending regresses. It estimated the debt servicing cost to absorb about 16% of revenues annually during the 2016-18 period compared to 9.4% in 2014. It forecast the public debt level at 20% of GDP in 2016 and 21.3% of GDP in 2018. Further, S&P projected the current account deficit to widen from 2.8% of GDP in the 2011-14 period to 3% of GDP in the 2016-18 period. It forecast the country's gross external financing needs to rise from 136.8% of current account receipts and usable reserves in 2015 to 149.5% in 2018, and for foreign currency reserves to cover 4.7 months of current account payments annually.

Source: S&P Global Ratings

RWANDA

Sovereign ratings downgraded on rising balance-of-payments risks

S&P Global Ratings downgraded Rwanda's long-term foreign and local currency sovereign credit ratings from 'B+' to 'B', with a 'stable' outlook. It attributed the downgrades to the deterioration in the country's external position in the first half of 2016, due to reduced foreign currency receipts as a result of lower commodity prices and elevated capital imports. It expected the current account deficit to widen to 16% of GDP in 2016 and to average 11.2% of GDP during the 2017-19 period. It anticipated foreign grants and direct investment inflows to finance a significant share of the deficit in coming years, but it noted that authorities would increasingly use their foreign currency reserves or resort to foreign borrowing to meet the external financing gap. It projected foreign currency reserves to stabilize at about $850m in the coming months compared to $920m at the end of 2015, supported by the disbursement of IMF funds and stable commodity prices. Also, it expected Rwanda's net external debt to rise from $1.5bn, or about 19% of GDP, at end-2015 to $2.7bn, or 27% of GDP, at end-2019. In parallel, S&P indicated that the ratings are supported by the country's strong economic growth prospects, relatively strong fiscal position and flexible monetary policy.

Source: S&P Global Ratings

UAE

Lending to corporates accounts for 50% of loans

The total loans of 19 banks in the UAE reached AED1,485bn, or $404.63bn, at the end of 2015, constituting a rise of 7.8% from end-2014 and an average annual rise of 7% since 2011. The distribution of loans shows that lending to corporates accounted for 50% of total loans, followed by retail loans with 24%, lending to government-related enterprises (GREs) and loans to the government with 12% each, and lending to non-bank financial institutions (NBFIs) with 2% of the total. Further, the sector's non-performing loan (NPL) ratio stood at 4.6% at end-2015 and is expected to average 4.4% during the 2016-18 period, while the provisioning coverage ratio reached 111% at end-2015 and is forecast to average 117% during the same period. In parallel, the banking sector's deposits totaled AED1,491bn, or $406.26bn, at end-2015, up by 3.6% from AED1,439bn a year earlier. Corporate deposits accounted for 38% of the total, followed by retail deposits (24%), deposits of GREs (13%), non-resident deposits (12%), government deposits (11%) and NBFIs deposits (2%). Total loans were equivalent to 123.7% of GDP in 2015, compared to 119.3% of GDP in 2014; while total deposits were equivalent to 124.2% of GDP in 2015, compared to 124.6% of GDP in 2014.

Source: Deutsche Bank

MOROCCO

Banking sector faces significant economic risks

S&P Global Ratings maintained Morocco's banking sector in 'Group 7' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '7' and an industry risk score of '6'. The BICRA framework evaluates global banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 7' include Bahrain, Bulgaria, Costa Rica, El Salvador, Hungary, Indonesia, Jordan, the Philippines, Portugal and Slovenia. S&P indicated that Morocco's economic risk score reflects its "very high risks" in its economic resilience and credit risks in the economy, as well as "intermediate risks" in its economic imbalances. It said that economic activity is concentrated in some cyclical sectors, mainly in agriculture, real estate and shipping, which leaves the economy vulnerable to external factors. It expected the non-performing loans ratio to increase to about 8% in the coming quarters, due to risks of deterioration in the quality of loans to the steelworks, tourism, commercial real estate and construction sectors. Further, S&P said that the industry score reflects the country's "high risks" in its competitive dynamics and in its system-wide funding, and "intermediate risks" in its institutional framework. It considered that the banks' risk appetite is high given their rapid expansion, mainly in riskier African countries. It expected the banks' limited access to external funding to lead to tight funding conditions for the sector. It considered that the trend for the banking sector's economic risk is 'stable', even though it expected the commercial real estate and tourism sectors to present elevated credit risks for the banks. Also, it noted that the trend for industry risks is 'stable'.

Source: S&P Global Ratings

KUWAIT

Outlook on banking sector remains stable

Moody's Investors Service maintained its stable outlook on Kuwait's banking sector, reflecting its expectations of sustained government spending and growing loan-loss absorbing capacity of the banks in the next 12 to 18 months. It projected bank lending to grow by 7% over the covered period, supported by the implementation of the government's new five-year development plan that would create new business opportunities for banks, as well as by strong domestic consumption. The agency projected a modest deterioration in asset quality and forecast the banking sector's non-performing loans ratio at about 3% to 4% in the 2016-17 period, relative to 3.3% at the end of 2015. It indicated that downside risks to the sector's asset quality are elevated due to the banks' high credit concentrations and exposure to the volatile equity and real estate markets. It noted that the banks' stronger capitalization levels and rising provisioning coverage enhance their loan-loss-absorbing buffers, and allow them to manage the modest increase in distressed loans. Further, it expected Kuwaiti banks to increase their provisions, which absorbed about 33% of their pre-provision income during the 2014-15 period. In parallel, it noted that Kuwaiti banks are better positioned to weather tighter liquidity conditions than GCC peers.

Source: Moody's Investors Service

NIGERIA

Agency assigns ratings to four large banks

Moody's Investors Service assigned local-currency deposit and issuer ratings of 'B1' to Zenith Bank (Zenith), Guaranty Trust Bank (GTBank) and United Bank for Africa (UBA), and ratings of 'B2' to First Bank of Nigeria Limited (FBN). It assigned a 'stable' outlook to the long-term ratings of Zenith, GTBank and UBA. Also, it assigned a 'negative' outlook on FBN's ratings due to the risk of high provisioning costs as a result of its high non-performing loans (NPLs) stock and low NPL coverage ratio. It said that high provisioning costs could undermine FBN's earnings-generating capacity and capital in case the difficult operating environment persists or worsens. It noted that FBN's ratings are supported by the bank's strong pre-provision profitability and solid local currency funding profile, but are constrained by deteriorating asset quality metrics. Further, the agency indicated that Zenith's ratings are supported by its resilient capacity to generate earnings, robust capital buffer, consistently low NPL ratios and resilient liquidity, which help it absorb the expected deterioration in asset quality. Also, it said that GTBank's credit profile is supported by its high pre-provision profitability and robust capital buffers, which provide a significant cushion to withstand the erosion in asset quality from the challenging operating environment. It noted that weak economic activity, the two banks' exposure to loans in foreign currency and sizeable single-name exposures would weigh on their asset quality. But it indicated that the two banks can absorb the expected deterioration in their asset quality. Further, Moody's anticipated UBA's asset quality to deteriorate less than its peers due to its favorable asset quality profile, but it noted that UBA's capitalization is slightly below the average level among large banks.

Source: Moody's Investors Service

Global oil oversupply to persist in first half of 2017

ICE Brent crude oil front-month prices closed at $46.83 per barrel (p/b) on September 21, 2016, constituting an increase of 2.1% from the preceding day and a rise of 25.6% from the end of 2015; while WTI oil prices grew by 3.4% day-to-day and by 22.1% from end-2015 to close at $45.33 p/b. The recent increase in oil prices came after the U.S. Energy Information Administration reported a drop of 6.2 million barrels in U.S. crude oil inventories, in contrast to analysts' expectations of an increase of 2.8 million barrels. Also, prices rallied due to strong import data from Japan and to a strike by oil service workers in Norway that threatened to cut output from the North Sea. However, the global oil market remains oversupplied as major exporters around the world continue to produce crude oil at near-record levels. Further, the International Energy Agency expected global oil demand to grow by 1.3 million b/d this year and by 1.2 million b/d in 2017, a lower level than a previous forecast. As such, it projected the oversupply in the oil market to persist until the end of the first half of 2017, in contrast to its previous forecast for a market rebalance at the end of 2016. Also, oil prices are expected to remain highly volatile due to investors' skepticism about a potential production freeze ahead of the upcoming OPEC meeting.
Source: International Energy Agency, Byblos Research

Middle East's consumer demand for gold down 20% in second quarter of 2016

The Middle East region's consumer demand for gold, which includes demand for jewelry and bars & coins, totaled 57.4 tons in the second quarter of 2016, down by 20.4% from 72.2 tons in the same quarter of 2015, and equivalent to 8.8% of global consumer demand for the precious metal. Saudi Arabia's demand for gold was 16.7 tons in the second quarter of 2016 and represented 29.1% of the region's total demand. It was followed by Iran with 15.1 tons (26.3%), the UAE with 12.5 tons (21.7%), Egypt with 6.1 tons (10.6%) and Kuwait with 2.6 tons (4.6%).
Source: World Gold Council, Byblos Research

Libya's oil production at 29% of normal capacity

Libya's oil production is currently at 450,000 barrels per day (b/d), or at about 28.8% of its normal supply level of 1.6 million b/d prior to the 2011 uprising. The country's crude oil output has been negatively affected by the ongoing turmoil between warring factions battling to gain control of the country. Libya raised its oil output by more than 70% since August 2016 as some oil fields resumed production and as the country's two biggest oil export terminals, Ras Lanuf and Es Sider, reopened for their first overseas loadings in two years. The National Oil Corporation aims to raise production to as much as 600,000 b/d by October 2016, 900,000 b/d by the end of the year, and 1.2 million b/d within 12 months.
Source: Bloomberg, Libya-businessnews

OPEC's oil output nearly unchanged in August

Crude oil production of the Organization of Petroleum Exporting Countries averaged 33.24 million barrels per day (b/d) in August 2016, nearly unchanged from the preceding month. Saudi Arabia produced 10.6 million b/d in August, equivalent to 31.9% of OPEC's total oil output. It was followed by Iraq with 4.35 million b/d (13.1%) and Iran with 3.65 million b/d (11%).
Source: OPEC, Byblos Research

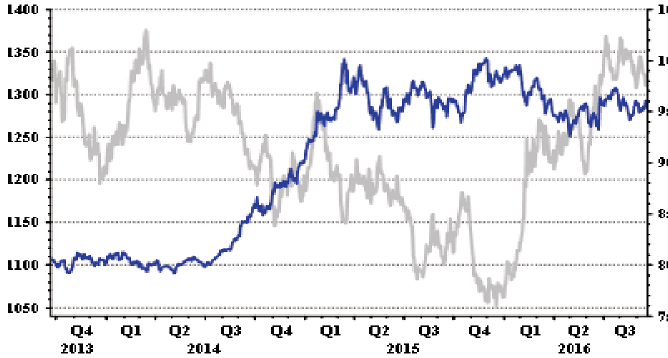
Base Metals: Copper market to balance by 2018

LME copper three-month future prices closed at $4,763 per metric ton on September 21, 2016, constituting an increase of 3.2% from the end of August 2016, due in part to a weaker US dollar. The copper market is expected to remain oversupplied over the next two years by about 500,000 metric tons per year and to balance by 2018, which would allow the metal's prices to gradually increase. Copper prices are forecast to average $4,600 per ton for the rest of 2016 and to rise to an average $4,850 per ton in 2017 and to $5,100 in 2018. In parallel, global demand for refined copper increased by 5.1% year-on-year in the first half of 2016, mainly due to an 11% rise in Chinese demand for the metal. Demand for refined copper grew by 7% in Asia and by 5% in Europe, while it declined by 17% in Africa and by 4% in the Americas, and it was nearly unchanged in Oceania in the first half of 2016. On the supply side, the metal's global refined production rose by by 2.9% to 11.5 million tons in the first half of 2016. China was the main contributor to growth in the metal's refined supply during the covered period.
Source: International Copper Study Group, S&P Global Ratings

Precious Metals: Gold prices to remain steady in coming months

Gold prices closed at a 10-day high of $1,326 a troy ounce on September 21, 2016 due in part to a weaker US dollar that was driven by the U.S. Federal Reserve's decision to keep interest rates unchanged. In parallel, prices increased by 24.8% from end-2015, as uncertainties related to the United Kingdom's vote to leave the European Union in late June 2016 supported investors' appeal for gold as a safe-haven investment. Also, an expected rise in Chinese demand ahead of the Chinese New Year and India's upcoming festivals and wedding season are expected to support gold prices in the coming months. In parallel, Julius Baer expected prices to fluctuate around $1,275 an ounce during the next three months and to decline to $1,200 an ounce on average in the next 12 months. It indicated that downside risks are expected to outweigh upside risks going forward. Downside risks consist of higher-than-expected economic growth in the U.S. that would lead the U.S. Federal Reserve to tighten its monetary policy at a faster pace, which would strengthen the US dollar. In contrast, upside pressure on gold prices include rising geopolitical risks, a global economic recession, further delays in U.S. interest rate hikes and a weaker US dollar. Julius Baer noted that the gold market continues to dismiss persistently weak Asian demand, as indicated by low imports and muted physical deliveries.
Source: Julius Baer, Byblos Research

Gold Prices vs. US Dollar Index



Source: Thomson Reuters Datastream, Byblos Research

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Africa													
Algeria	- -	- -	- -	- -	BB+ Negative	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B Negative	B1 Negative	B+ Negative	- -	B+ Stable	-7.1	70.1	96.8*	85.0**	7.3	14.4	-11.6	2.6
Egypt	B- Negative	B3 Stable	B Stable	B- Stable	B- Stable	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B Stable	B1 Stable	B Stable	- -	B+ Stable	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B- Stable	B3 Negative	B Negative	- -	B+ Negative	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	- -	Ba3 Stable	B+ Stable	- -	B+ Stable	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	- -	- -	B Stable	- -	B- Negative	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep Congo	B- Negative	B3 Stable	- -	- -	CCC Stable	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB- Stable	Ba1 Stable	BBB- Stable	- -	BBB Stable	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B Stable	B1 Negative	B+ Stable	- -	BB- Negative	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	- -	- -	- -	- -	CC Negative	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	- -	Ba3 Stable	BB- Negative	- -	BB+ Stable	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B- Stable	- -	- -	- -	B+ Stable	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B Stable	B2 Stable	B Positive	- -	B+ Stable	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
Middle East													
Bahrain	BB Stable	Ba2 Stable	BB+ Stable	BBB- Negative	BBB- Negative	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	- -	- -	- -	BB- Stable	BB- Stable	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B- Stable	(P)Caa1 Stable	B- Negative	- -	CC+ Stable	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB- Negative	B1 Stable	- -	BB- Stable	BB+ Stable	-3.4	90.4	64.5	141.2**	4 10.5	177.3	-6.4	5.5
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	AA- Stable	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B- Stable	B2 Negative	B- Stable	B Negative	B- Stable	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BBB Stable	Baa1 Stable	- -	A- Negative	BBB Negative	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA Stable	Aa2 Negative	AA Stable	AA- Negative	AA- Stable	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A- Stable	A1 Stable	AA- Negative	AA- Negative	AA- Stable	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	- -	- -	- -	- -	C Negative	-	-	36.5	-	-	-	-	0.6
UAE	- -	Aa2 Negative	- -	AA- Stable	AA- Stable	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	- -	- -	- -	- -	CCC Negative	-10.0	67.3	17.3	-	-	197.2	-7.0	-0.2

COUNTRY RISK METRICS

Countries	LT Foreign currency rating S&P	Moody's	Fitch	CI	IHS	Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Asia													
Armenia	-	B1	B+	-	B-								
	-	Stable	Stable	-	Stable	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	3.8
China	AA-	Aa3	A+	-	A								
	Stable	Stable	Stable	-	Stable	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-								
	Negative	CWN***	Stable	-	Negative	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB-								
	Negative	Stable	Stable	-	Stable	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Negative	Stable	-	Positive	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
Russia	BB+	Baa3	BBB-	-	BB+								
	Negative	CWN***	Negative	-	Negative	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
Turkey	BB	Baa3	BBB-	BB+	BB-								
	Negative	CWN***	Negative	Stable	Negative	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
Ukraine	CCC	Caa3	CCC	-	B-								
	Negative	Negative	-	-	Stable	-4.2	69.9	127.1	235.3	22.4	663.6	0.4	1.1

**to official creditors*

*** external debt/current account receipts*

****Credit Watch Negative*

Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; Moody's Investors Service; Byblos Research - The above figures are forecasts for 2016

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25-0.50	21-Sep-16	No change	02-Nov-16
Eurozone	Refi Rate	0.00	08-Sep-16	No change	20-Oct-16
UK	Bank Rate	0.25	15-Sep-16	No change	13-Oct-16
Japan	O/N Call Rate	-0.10	21-Sep-16	No change	01-Nov-16
Australia	Cash Rate	1.5	06-Sep-16	No change	04-Oct-16
New Zealand	Cash Rate	2.00	11-Aug-16	Cut 25bps	22-Sep-16
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Sep-16	No change	15-Dec-16
Canada	Overnight rate	0.50	07-Sep-16	No change	19-Oct-16
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.75	27-Jul-16	No change	N/A
Taiwan	Discount Rate	1.375	30-Jun-16	Cut 12.5bps	30-Sep-16
South Korea	Base Rate	1.25	09-Sep-16	No change	13-Oct-16
Malaysia	O/N Policy Rate	3.00	07-Sep-16	No change	23-Nov-16
Thailand	1D Repo	1.50	14-Sep-16	No change	09-Nov-16
India	Reverse repo rate	6.50	09-Aug-16	No change	04-Oct-16
UAE	Overnight repo rate	1.25	17-Dec-15	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	0.50	16-Dec-15	Raised 25bps	N/A
Egypt	Overnight Deposit	12.25	28-Jul-16	No change	22-Sep-16
Turkey	Base Rate	7.50	23-Aug-16	No change	22-Sep-16
South Africa	Repo rate	7.00	21-Jul-16	No change	22-Sep-16
Kenya	Central Bank Rate	10.50	20-Sep-16	No change	N/A
Nigeria	Monetary Policy Rate	14.00	20-Sep-16	No change	22-Nov-16
Ghana	Prime Rate	26.00	19-Sep-16	No change	21-Nov-16
Angola	Base rate	16.00	08-Aug-16	No change	26-Sep-16
Mexico	Target Rate	4.25	11-Aug-16	No change	29-Sep-16
Brazil	Selic Rate	14.25	31-Aug-16	No change	19-Oct-16
Armenia	Refi Rate	7.25	16-Aug-16	Cut 25bps	27-Sep-16
Romania	Policy Rate	1.75	04-Aug-16	No change	30-Sep-16
Bulgaria	Base Interest	0.00	01-Sep-16	No change	03-Oct-16
Kazakhstan	Repo Rate	13.00	15-Aug-16	No change	03-Oct-16
Ukraine	Discount Rate	15.00	15-Sep-16	Cut 50bps	27-Oct-16
Russia	Refi Rate	10.00	16-Sep-16	Cut 50bps	28-Oct-16

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